THE NATIONAL COMMERCIAL BANK

FIRST FOR BANKING IN SAUDI ARABIA

70 PERCENT

250 BRANCHES

47.5 PERCENT

1.1 MILLION

ANNUAL REPORT & ACCOUNTS 2002

البنك الأهلي التجاري
THE NATIONAL COMMERCIAL BANK

THE NATIONAL COMMERCIAL BANK
VISION STATEMENT

NCB IS:

THE PREMIER CONSUMER BANK
IN SAUDI ARABIA

THE PREFERRED PROVIDER OF FINANCIAL
SERVICES TO SELECTED CORPORATE CLIENTS

THE INNOVATOR IN ISLAMIC BANKING

THE LEADING REGIONAL BANK

NCB'S PURPOSE IS TO MAXIMIZE
SHAREHOLDER VALUE AND SERVICE SOCIETY

NCB'S CORE VALUES ARE FOCUSED ON:

PEOPLE, CUSTOMERS AND PERFORMANCE

Contents

بسم الله الرحمن الرحيم

King Fahad Bin Abdulaziz Al-Saud
The Custodian of the Two Holy Mosques

His Royal Highness Prince Abdullah Bin Abdulaziz Al-Saud
Crown Prince, First Deputy Premier and Head of the National Guard

His Royal Highness Prince Sultan Bin Abdulaziz Al-Saud
Second Deputy Premier, Minister of Defense and Aviation and Inspector General

Corporate Highlights

NCB NOW PROVIDES FULL FUNCTIONALITY ACROSS AL-AHLI ELECTRONIC SERVICES, THAT INCLUDES AL-AHLI ONLINE, AL-AHLI PHONE BANK, AL-AHLI MOBILEBANK, AND AL-AHLI ATMS. TODAY OVER 70% OF ALL TRANSACTIONS ARE CONDUCTED USING THESE MEDIUMS

NCB LAUNCHES IN ASSOCIATION WITH DEUTSCHE BANK THE ISLAMIC BUILDERS CERTIFICATE. IT IS THE FIRST ISLAMIC INVESTMENT PRODUCT OF ITS KIND WORLDWIDE

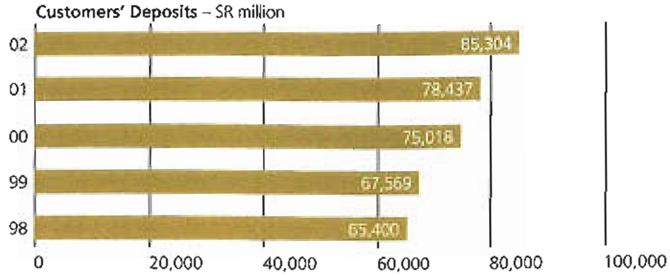
NCB LEADS THE CONSUMER FINANCE MARKET WITH 26.4% MARKET SHARE

NCB PLAYS A LEADING ROLE IN VITAL ECONOMIC SECTORS SUCH AS THE INDUSTRIAL SECTOR WITH APPROVED FACILITIES REACHING IN EXCESS OF SR 7 BILLION

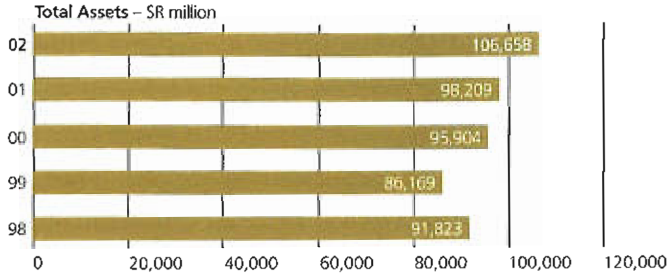
NCB CUSTOMERS BASE CROSSED THE 1 MILLION MARK

Financial Highlights

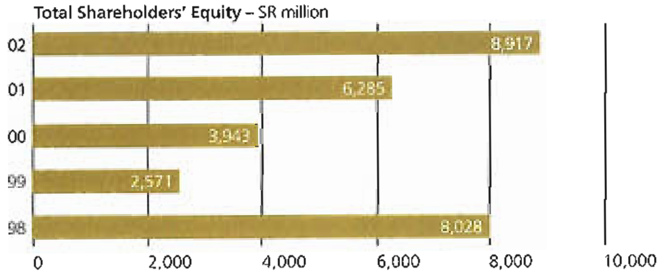
Customers' Deposits – SR million



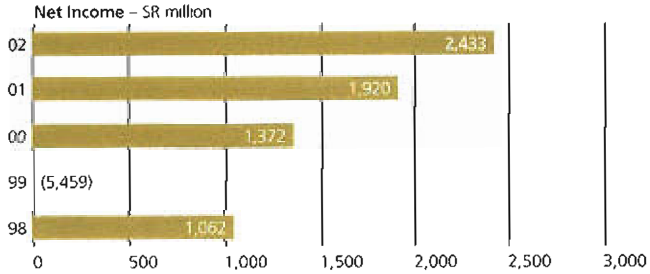
Total Assets – SR million



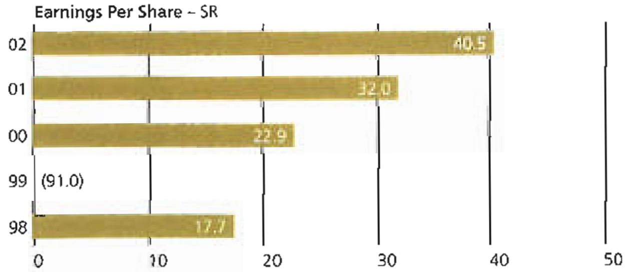
Total Shareholders' Equity – SR million



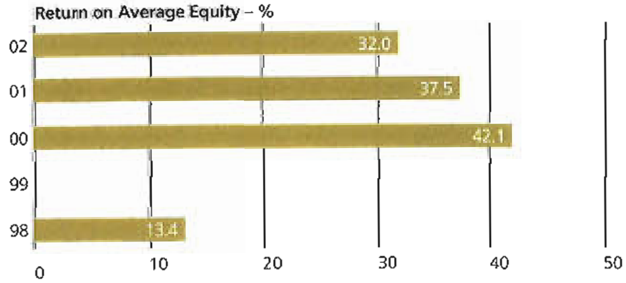
Net Income – SR million



Earnings Per Share – SR



Return on Average Equity – %



Chairman's Statement

Abdullah Salim Bahamdan
Chairman of the Board. Managing Director and Chairman of the Executive Committee.

In May 1999, The National Commercial Bank welcomed a major new shareholder in the shape of the State owned Public Investment Fund (PIF) with a 50% participation in the capital of the Bank. Soon after, 10% of this shareholding was transferred to the General Organization for Social Insurance (GOSI), thus bringing to the Bank, for the first time, two institutional shareholders of undoubted strength and reputation, reflecting the explicit backing of the Government, with the declared intention of supporting the Management of NCB in its overall strategy, including the public flotation of the Bank at an appropriate time in the future. Currently, the Public Investment Fund is the major shareholder, accounting for 69.3% of the shares of the Bank. The General Organization for Insurance continues to own 10% with the remaining 20.7% of the shares being distributed among twenty-four individual investors.

In August 1999, and in accordance with global best practices in corporate governance, a new Board of Directors was elected. I was appointed Chairman and Managing Director of NCB and Mr Abdulhadi Ali Shayif was appointed General Manager. We also established a new Executive Committee, under my Chairmanship, charged by the Board of Directors to develop and implement a three-year strategy, the principal objectives of which were: to restructure the Balance Sheet by examining all the assets of the Bank – with particular attention to Loans and Advances – and to take whatever action deemed necessary to establish NCB's credentials as a sound, liquid and profitable institution; to increase productivity and shareholder value; and to develop and implement a medium-term plan for the Bank which would weld our management and staff into a cohesive team motivated and focused in realizing their agreed upon objectives at every level.

The first of our objectives, the examination of all our assets, with particular regard to Loans and Advances, including the existing Non-Performing Loans, took longer than we had anticipated. Indeed, it was not until well into the year 2000 that the team assigned to the task was able to report their initial findings, which led us to reclassify a substantial number of loans as non-performing. As per International Accounting Standards and in compliance with related post-balance sheet events, certain accounts, which were regarded as performing in 1999 but subsequently determined to be impaired in 2000, 2001 and 2002, in addition to any settlements reached during those years with the resulting impact on loan loss provision, were accounted for as part of a balance sheet adjustment to a loan loss provision expense in 1999. In order to regularize this position, the Board accordingly decided to set aside the whole of the Operating Profit for 1999 (SR 1.5 billion) and transfer SR 5.1 billion from the Capital & Reserves, which resulted in a net loss in 1999 of SR 5.5 billion, and a pro rata reduction in Shareholders' Funds (net worth) to SR 2.6 billion.

By the end of 2000, it was clear that the decision to act decisively once and for all had been well founded; moreover, the continuous and rigorous process of loan loss recovery was proving successful. The Board and Management had agreed to forego any Dividends until Shareholders' Funds were restored to the level of that in 1998, i.e. SR 8.0 billion. To this end, the whole of the Operating Profits of the year was allocated to Capital & Reserves.

The year 2001 and 2002 proved to be highly successful and enabled us to complete the process that we had begun in the autumn of 1999, and within the three-year program. It gives me great pleasure to confirm today that the Non-Performing Loan Reserve Ratio is now at 108% and the target for the restoration of Shareholders' Funds (net worth) has been exceeded, for we ended the year 2002 with Shareholders' Equity at SR 8.9 billion.

None of this would have been possible without the endorsement of our shareholders whose support for the Management team has been unwavering throughout this period. Nor could we have achieved such a remarkable success without the dedication of all our staff at every level. At the end of 2002, the Capital Adequacy ratio was 19% and the Equity Asset Ratio was 8.4%. Moreover, Net Income amounted to SR 2.4

billion and ROE reached 32%. Consequently, the bank regained its position as the Kingdom's leading and best performing bank. At this point, I would like to pay sincere tribute to all our customers who have been our source of strength and confidence, as they never spared any opportunity to provide much needed encouragement to the Management of the Bank.

I would now like to move from the past to the present and future outlook for NCB.

The new executive team provides leadership by setting the Group's strategy and plans, monitoring financial and business performance and ensuring that the Group's control framework is effective.

Our substantial investment portfolio provides an excellent return and important liquidity to the Balance Sheet. Loans and Advances are steady; and the 26.4% share in the consumer finance market confirms NCB as the premier operator in this market. By the end of 2002, the number of our branches has increased to 250, while the number of ATMs increased to a total of 722 machines. NCB phone banking has continued to expand, while other new products have been simultaneously introduced. Total transactions for the year 2002 surpassed 75 million, of which 52.5 million transactions (or 70% of the total) have been executed by way of electronic distribution. With a 47.5% share of the mutual funds market in the Kingdom, we continue to offer our investing customers excellent opportunities for growth and security both in conventional and Islamic funds. Through our 72 Islamic branches, under the management of the Islamic Banking Division, we are effectively the second most important provider of Islamic Banking services in the Kingdom. At the same time, the Private Banking Division has concentrated on a specific segment of our customers whose personal assets require a more individual, tailor-made investment service.

In all our thinking, is the constant need to offer the highest quality of customer service; to be at the forefront of innovative products; and to encourage the maximum development of our people. Indeed we have established a dynamic Human Resources Division for this latter purpose.

We recognize that as the largest commercial banking operation in the Kingdom, NCB's performance – and the ability to realize all its objectives – is inevitably influenced by the Saudi economy itself. In this respect, the oil price recovery, which began back in March 1999, provided considerable relief, and despite slippage during the fourth quarter of 2001, prices remained relatively firm all the way through 2002. Nonetheless, NCB has managed to weather the limited fluctuations rather successfully. Meanwhile, the Government has begun to implement a series of structural reforms designed to boost capital investment and give more responsibility to the private sector by liberalizing trade and investment regimes and generally diversifying the economy. The main reform efforts include ongoing negotiations with the World Trade Organization, privatizing parts of the public sector, improving the foreign direct investment climate, and diversifying government revenues away from over-reliance on volatile oil prices. All of which have combined to provide an environment within which NCB has been able to flourish.

As a result of the successful outcome to our planning over the past three years, I believe that NCB now has the right platform from which to achieve the next phases of its strategy. This will not only entail the consolidation of the Bank's position as the dominant domestic commercial bank in the Kingdom, but also foresee the gradual process of becoming an important regional institution.

Our confidence in meeting future targets of profitability, productivity and progress is based on our belief in the loyalty, professionalism and integrity of our people. It is only through the combined efforts of all who work in NCB, both at home and abroad, that the Bank has prospered in the past and will continue to prosper in the future. I would like to thank all members of staff for their excellent personal endeavours.

In conclusion I would like to record our gratitude to the Ministry of Finance and Economy and the Saudi Arabian Monetary Agency for their unfailing assistance and encouragement to the banking community. It has never been more important that the environment for banking in the Kingdom should remain clear and transparent, and reflect the highest personal and corporate standards. I would also like to take this opportunity to express sincere appreciation for the guidance of The Custodian of the Two Holy Mosques, King Fahad Bin Abdulaziz Al-Saud, the Crown Prince and First Deputy Premier, HRH Prince Abdullah Bin Abdulaziz Al-Saud and Second Deputy Premier and Minister of Defense and Aviation, HRH Prince Sultan Bin Abdulaziz Al-Saud and their ministers, in the knowledge that appropriate and supportive policies will always be forthcoming and available to the Saudi Arabian banking community.

Abdullah Salim Bahamdan

THE MEMBERS OF THE NCB BOARD OF DIRECTORS

Abdullah S. Bahamdan*
Chairman of the Board
Born in 1937. He has been with NCB for more than 40 years, moving steadily up through the Bank's management. Today, as well as being Chairman of the Board he is also Managing Director and Chairman of the Executive Committee. He is also Chairman and a member of the Board of a number of other Saudi companies, including the National Gas and Industrialization Co. and Al-Yamamah Saudi Cement Co.

Ibrahim M. Al-Romaih*
Born in 1958. He is Assistant Secretary General of the Public Investment Fund (PIF) and has been a member of various government-sponsored committees and has represented the Saudi Government on the Boards of Directors of national and international joint-venture companies including National Cooperative Insurance Company and SAVOLA in Saudi Arabia, SAPCO, Pakistan and the Saudi Tunisian Investment Company. He is also on NCB's Executive Committee.

Abdul Aziz A. Al-Zaid*
Born in 1953. He is currently the Projects General Manager at the General Organization for Social Insurance (GOSI) and a member of the Board and Executive Committees of Qaseem Cement Company. He was a member of the Board and Executive Committees of National Tourism and Al-Ahsa Co. for Medical Services, as well as a member of various Associations, including Saudi Engineering Committee, Canadian Hospital Engineering Committee, American Concrete Institute and International Commission of Shopping Centers.

Abdul Rahman K. Bin Mahfouz
Born in 1970. He was the Vice-Chairman and President, then became Chairman of Al-Salamah Hospital. He is also the Chairman of Medical Dialyzers Corporation (MDC) and Yeminvest in addition to having held the positions at NCB of Deputy Chairman of the Executive Committee and Deputy General Manager until 1999.

Sultan K. Bin Mahfouz
Born in 1973. He is Chairman of the Board at Al-Yanabie, Saudi Business Forms Co. Ltd., Al-Mara's Meat and Al-Murjan Trading & IND. Co. Ltd. He is also member of the Board at Arabian Cement Ltd., Key Rent a Car and Al Zamil IND. Investments Co.

Saleh H. Kaki
Born in 1960. He began with NCB in 1982 as a Branch Manager, then became Deputy Regional Manager for Collection and Credits, and subsequently Assistant General Manager and Head of Systems and Operations. In 1996 he became Deputy General Manager and Head of Retail Banking until he was appointed Deputy General Manager for Banking Operations. He is also on NCB's Executive Committee.

Mutlaq A. Al-Mutlaq*
Born in 1939. He is a founder and partner in Abdul Mohsen and Mutlaq Abdullah Al-Mutlaq Co., President and Managing Director of Al-Mutlaq Group, and Chairman of the Board of Al-Jazirah Corporation for Press, Printing and Publishing. He was a founding member of the Board at the General Est. for Military Industry and Middle East Battery Company, a partner with Delphi Automotive Systems and was a Board member of Saudi Arabian Airlines and Riyadh Chamber of Commerce. He continues to provide executive consultancy to other Saudi companies such as NAPCO. He is also on NCB's Executive Committee.

Abdullah M. Al-Gholaikah*
Born in 1939. He was Deputy Minister for Water Affairs in the Ministry of Agriculture, and Governor for Saline Water Conversion Corporation. He was also a member of Majilis Al-Shoura (the Consultative Council).

*Members re-elected and remaining in the new Board of Directors, formed in May 2003.

Top row, left to right
Abdullah S. Bahamdan
Ibrahim M. Al-Romaih
Abdul Aziz A. Al-Zaid

Second row, left to right
Abdul Rahman K. Bin Mahfouz
Sultan K. Bin Mahfouz

Bottom row, left to right
Saleh H. Kaki
Mutlaq A. Al-Mutlaq
Abdullah M. Al-Gholaikah







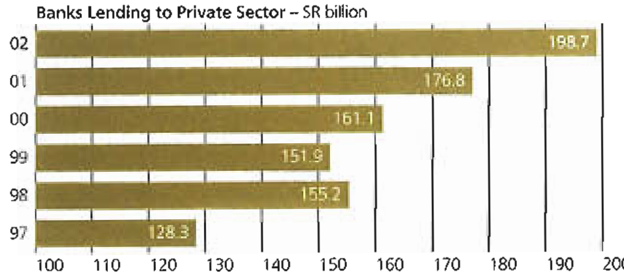

THE KEY TO SUCCESS WILL BE FOR BANKS TO BECOME MORE RESPONSIVE TO THE NEEDS OF THEIR CUSTOMERS

2002 was a year of continued growth for the Saudi Arabian economy due to higher than expected oil prices and despite the global economic slowdown. The surge in oil prices and the associated increase in oil production and quotas last year, influenced by war jitters and worries of supply shortages have resulted in an improvement in the Kingdom's terms of trade, balance of payments and Government revenues. Consequently, all sectors of the Kingdom's economy grew by 2.3% in normal terms following a 3.8% decline in 2001.

Although oil prices have increased behind their levels in 2002, the outlook for the Saudi economy is still favorable and private sector GDP is forecast to grow by 2.0% in 2003. In light of oil developments so far this year, the Government's 2003 budget will sustain its infrastructure, industrial and social development policies and is expected to produce a surplus this year following the unexpected SR 25 billion deficit last year.

The Saudi Stock Market Index grew by 3.6% through the whole of last year following a 7.6% increase in 2001. With continued demand for goods and services in 2003, company profits and share prices are expected to increase further. The Banking sector, which constitutes about 36% of the Stock Market's total value, was down last year with the average loss in share prices for listed banks at 0.8% following a 7.6% increase in 2001. A good year for banks shares can be expected in 2003.

Banks Lending to Private Sector – SR billion



Opportunities Presented by New Government Policies

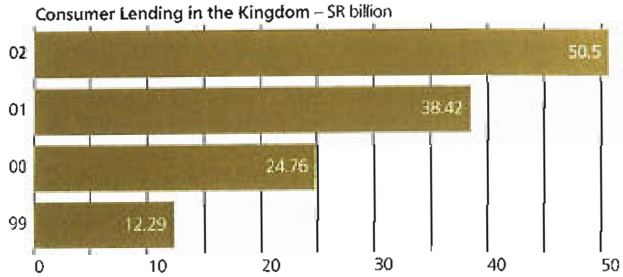
The Government is committed to reducing the dependence on oil revenues by promoting economic diversification, particularly by encouraging private industry. This is essential both to bringing greater economic stability and providing jobs for thousands of college and school graduates.

In the early 1980s, oil exports constituted 99% of all Saudi exports. While all exports rose by 80% between 1984 and 2002, non-oil exports (including re-exports) rose by 10 times, increasing from only 1% of total exports to around 13% today.

In order to stimulate non-oil manufacturing and exports still further, the Government has announced various measures to liberalize trade, develop the Kingdom's infrastructure, privatize enterprises and deregulate capital markets. These measures included the new foreign investment law, which was passed in April of 2000, and the establishment of the Saudi Arabia General Investment Authority. In addition, the gas initiative was launched in 2001 as part of the Government's ambitious plan to utilize the Kingdom's massive gas reserves for industrial development and sustained economic growth, with an estimated initial investment of US$25-30 billion over the next five years.

Measures, which will create particular opportunities for the banks include the liberalization of the capital market and the intended sale of the Government's stake in public companies.

Consumer Lending in the Kingdom – SR billion



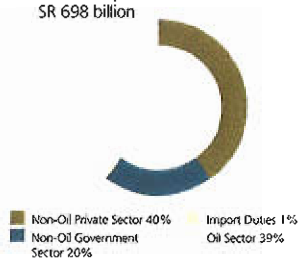
After the introduction of the Saudi Telecommunication Company, the Government ownership in the Saudi Stock Market rose to around 40% of the total market capitalization. While this would mean a huge placement program, there would appear to be no shortage of capital for investment. Saudi nationals are estimated to own over SR 1.5 trillion (US$400 billion) in liquid assets abroad, available for investment in Saudi companies if the prospects look good.

Continued Reform of the Electrical Supply Industry

In a particularly important move, and in order to meet future demands for power in the Kingdom, the Government has restructured the electricity supply industry. This included merging 10 electricity companies into one joint stock company. The Government is aiming to raise generating capacity from today's 24,000MW to 70,000MW by 2020, in order to support the development of industry in Saudi Arabia. This will require the creation of new, large generating plants and will include the creation of a unified customer grid, possibly linked to other Gulf countries. The Government has already raised tariffs on consumption and reduced subsidies, cut the unit cost of production and increased sectoral efficiency. Such developments along with other reforms in water supply, railway transportation and mining will offer major funding opportunities for the Kingdom's banks.

Positive Trends for Banking in Saudi Arabia

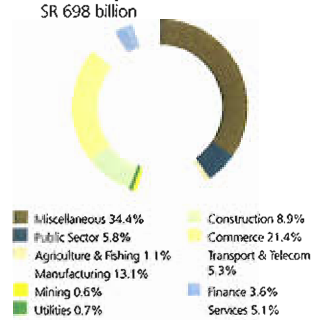
GDP Composition in 2001 –
SR 698 billion



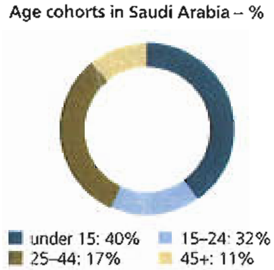
Four major trends are having a powerful effect on banking in Saudi Arabia:

- A steady increase in the number of people with bank accounts, as more companies automate their payments to employees following the SARIE initiative. The number of the "unbanked" will continue to fall while the number of bank customers will continue to rise.
- Rapid growth of the Saudi population at over 3.5% a year, compared with 0.3% in Japan and 0.2% in the EU. Around 60% of the entire population is under the age of 24 and as this generation leaves school and finds jobs they will need a range of financial products and services. They will be a huge potential new market for banks.
- Saudi Arabia is moving away from being a "cash" society towards a credit society. People paid in cash generally have no means to borrow the money they need to finance purchases but as they acquire bank accounts, they will gain access to funds. The Kingdom's banks can profit from this trend.
- The development of new, mainly internet-based, technology expanded rapidly throughout 2001 and 2002. Just as this has stimulated business growth elsewhere in the world, it can also be expected to do the same in Saudi Arabia. Within banks, new technology means that customer service can be dramatically improved, transactions done far more simply and transaction costs slashed.

GDP Composition in 2001 –
SR 698 billion



Age cohorts in Saudi Arabia – %



The Impact of Saudi Arabia's application to Join the World Trade Organization (WTO) will mean further opening up the Saudi marketplace to foreign companies who can be expected to bring new expertise, technology and capital to develop private industry in the Kingdom. It will also reciprocally open up new export markets for Saudi companies.

Since its establishment, Saudi Arabian General Investment Authority (SAGIA) has licensed 1499 joint companies established with the support of foreign investors, with total investment commitment of SR 46 billion.

It is not clear what final arrangements will be reached with the WTO but the key features of any agreement are thought likely to include:

- Further reduction in import tariffs on some protected industries.
- Phasing out a variety of government subsidies.
- Equal tax treatment to foreign and local investors (at present Saudi companies have tax advantages).
- Allowing foreigners to own property.
- Opening up various service sectors including banking and insurance to greater foreign participation.

Liberalization of trade demands that Saudi companies modernize and increase their share in the face of stronger competition. While a number of domestic mergers have already been concluded, more are still needed in order to face the globalization challenge. The private sector is taking rapid steps with a number of foreign alliances under discussion.

Liberalization of trade would be neutral to oil and oil-related products since these are not covered by the WTO. Given the still relatively small amounts of non-oil exports, liberalization of trade will initially have a relatively small impact on the Kingdom's total economy though substantial benefits for non-oil exporters in the longer term. How much benefit will be determined by how diverse they can become, a process in which Saudi banks will play a key role in funding.

The arrival of more foreign companies on the scene, partnering Saudi companies in various forms and bringing with them expertise and established access to foreign markets, will speed the process of development. This process too seems certain to provide a rich opportunity for Saudi banks.

Most of the Kingdom's neighbors including Bahrain, Kuwait, Qatar, Egypt, Morocco and Tunisia have already joined the WTO. Entering the WTO will bring a much-improved opportunity for the Kingdom's banks to offer their products and services throughout the Middle East, open up a large market of new customers and make possible economies of scale.

Conclusion

The four trends mentioned earlier, together with privatization and restructuring of Saudi companies, the liberalization of trade and the development of Saudi industry, provide major opportunities for the Kingdom's banks.

Although any future entry of foreign banks into Saudi Arabia will increase competition, the Kingdom's banks start with an advantage of intimate knowledge of the marketplace and, in the case of long-established banks, great customer loyalty. However, the presence of aggressive competition will put pressure on them, and in the long term only the strongest will survive. The key to success will be for banks to become more responsive to the needs of their customers, providing them with better advice on investment and savings, modernizing services through the use of technology, cutting costs to customers by reducing funding and transaction costs, and developing the kind of sophisticated financing schemes which are by now quite common in developed economies.

It is likely that some business will be lost to the new competition by even the strongest domestic banks and market share will be reduced. But the absolute amount of business will nonetheless increase substantially because of the sheer size of the up-coming opportunities. Those banks, like NCB, which have the strongest heritage and brand loyalty and are in the forefront of modernization, will certainly prosper whatever competition emerges.

OUR EMPHASIS IS ON OUR CUSTOMERS, INNOVATION AND DEVELOPING THE SKILLS OF OUR PEOPLE

Mr Abdulhadi Ali Shayif
General Manager

NCB's three Sector Heads – (from right) Abdulkareem Abu Al Nasr (Consumer), Saud Sabban (Corporate) and Taha Al Kuwaiz (Support Services) – together with the General Manager, Abdulhadi Ali Shayif.

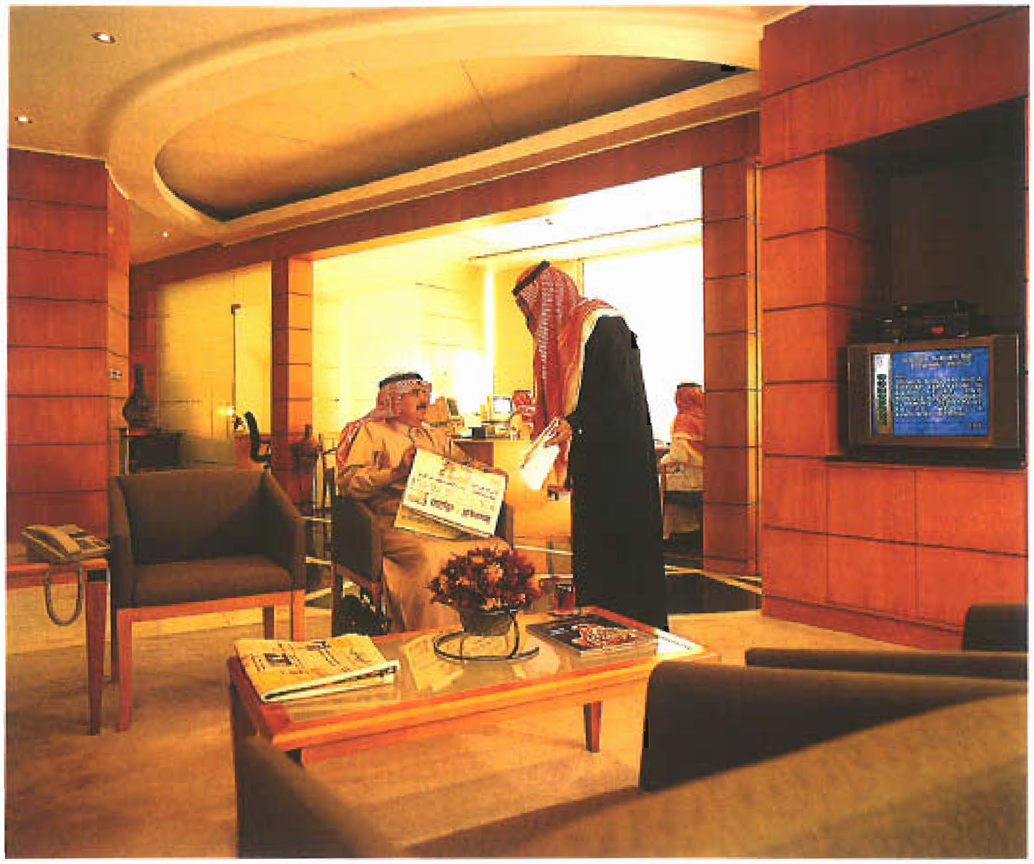
By any measure, 2002 was an exceptional year for The National Commercial Bank. Return on Equity and Net Income Growth were 32% and 26.8% respectively and, more importantly, the best ratios among the banks in the Kingdom. It is my fundamental belief that in competitive markets exceptional results reflect high levels of customer satisfaction for our products and services which, in turn, stem from highly motivated people working together to make every customer feel that The National Commercial Bank is the best place to bank in the Kingdom. Our management philosophy is centered on our people, our customers and performance. It basically says that, if our management can make The National Commercial Bank the best place to work, our people will make it the best place for customers to bank and performance will follow. Here are a few of the people and customer stories from 2002.

Consumer banking, a key part of our strategy, emphasizes innovative Sharia compliant products and services, service quality and technology. Examples of this emphasis include the Islamic Development Group working with people from our

26.4

PERCENT

Fact: NCB has the premier share of the consumer finance market.



Above: Members of Islamic Banking Division assessing a proposal for a new product: Ahmad Saleh, Faisal Kurdi, Ammar Shata, Abdulrazak Elkhraijy.

Above: Doing business in a modernized banking hall.

Brokerage business, to develop the Murabaha Stock Purchase Facility, which is an Islamic Margin product for our Brokerage customers, to enable them to leverage their portfolio. They also worked with our Investment Services people to develop the Al-Ahli Sadaqaat Fund, which also benefits the local community, and the Al-Ahli Euro Murabahat Fund. Working with Treasury and our Private Bankers, they developed two deposit programmes, the AlMamoun Structured Deposits and Long-Term Murabaha Deposits. Working with the Structured Finance people in the Corporate Bank, they developed an Ijara Securitization structure that was financed with funds raised through the new C-U-LAH (Liquidity) product. Finally, working with people in Personal Finance, they developed the Prepaid Credit Card, which provides our customers with the convenience of a Credit Card while limiting the amount that can be purchased.

To demonstrate the importance of Islamic Banking to NCB, at the end of 2002, Taysser, (a more convenient form of financing pioneered by NCB in 2001), and Personal Murabaha accounted for 90% of the new personal finance applications and 75% of the personal loan portfolio. On the investment side, Sharia compliant mutual funds accounted for 75% of our total mutual funds. With both the world's largest Islamic Equity Fund and the world's largest Islamic Short-Term Fund, The National Commercial Bank accounted for 75% of all Islamic mutual funds in the Kingdom. In recognition of our leadership and achievements in Islamic Asset Management, Euromoney selected NCB as the Best Islamic Asset Manager in the world.

Elsewhere, in 2002, our Technology people worked closely with branch staff and management in our Retail and Islamic Divisions to develop and install a new branch system. The new system enables our staff to provide faster service to their customers, thereby substantially increasing their capacity to serve our branch customers. It also lays the foundation for further enhancements, all of which will improve the customer experience in the branch. They also worked with people from Investment Services and the Al-Ahli On-Line to allow our Mutual Fund customers to purchase mutual fund units, switch from one fund to another and to redeem shares, all on-line. One of the more interesting initiatives involved people from Retail Banking and American Express. As a result of this collaboration, American Express Cardholders can use their Amex cards to execute purchase transactions using Al-Ahli POS terminals.

75

PERCENT

Fact: NCB accounted for 75% of all Islamic mutual funds in the Kingdom.

OUR BRANCH MODERNIZATION PROGRAM ENABLES OUR PEOPLE TO DELIVER PERSONAL SERVICE TO OUR CUSTOMERS IN AN ENVIRONMENT MORE SUITABLE FOR DISCUSSING THEIR FINANCIAL AFFAIRS

250 BRANCHES

Fact: NCB ended 2002 with a network of 250 branches.

Below: Abdulkareem Abu Alnasr, Consumer Sector Head (center), and his Division Heads meeting with a visitor (left to right) Jawdat M. Al-Halabi (Private Banking), Nassif Aoun (Investment Services), Louis J. Myers (Retail).

Transaction volumes originating in our electronic channels grew by almost 32% in 2002 and accounted for 70% of total transactions for the year. These channels are clearly popular with our customers who appreciate the increased convenience as well as with our shareholders who appreciate the cost benefits associated with the electronic channels.

In many ways, "know your customer" was one of the most important themes of the year. Customer knowledge is the bread and butter of marketing. We have invested substantial time and capital to build data warehousing capabilities and customer segmentation models that help us improve customer satisfaction. Segmentation is one of the most important marketing activities. Proper segmentation permits the marketer to tailor the product mix to the unique requirements of each target segment.

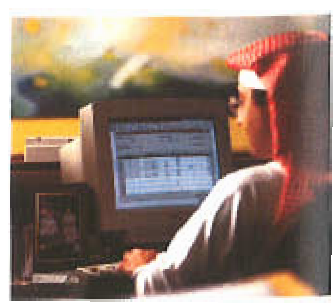
During 2002, we entered the insurance market with a product menu covering medical, auto and Rukhsa (Driver's License) insurance. These new products represent the combined efforts of people in our Retail and Islamic Banking who, working closely with Technology, made the services available through the branch system.

During the year, the Bank completed a number of initiatives designed to improve customer service. The distribution network was substantially expanded. Significant achievements include: installing 127 new ATMs (at year end, the installed base consisted of 722 ATMs); launching the new automated phone banking system, which is a proprietary technology containing several innovative features that have been highly appreciated by our customers; and replacing our telecommunications network with an internet protocol-based system. In addition to improving transaction response time, the new system is also more reliable, simpler to maintain and provides the foundation to support the future requirements of the whole branch system. The functionality of the distribution channels was also expanded and improved.

722 ATMs

Fact: NCB has a network of 722 ATMs in service throughout Saudi Arabia. 127 new ATMs were installed last year.

The functionality of the distribution channels was also expanded and improved. In recognition of our achievements in this area, we were voted the Best Electronic Bank in the Middle East for 2002.



70
PERCENT

Fact: 70% of total transactions were made through our electronic channels last year.

In recognition of our achievements in this area, we were voted the Best Electronic Bank for Retail, (for the third year in a row). An example of the significant improvements made in the area was a notable increase in the number of customer agents in the Call Center. This reduced wait time and abandoned calls. We are proud of the fact that the Al-Ahli Phone Bank is considered to be the best in the Kingdom. In addition, we opened three new branches to bring the total number of branches to 250, of which 72 are dedicated to Islamic products and services.

Commercial banking, the other key strategic focal point, also builds upon innovation and technology. For example, in a collaborative effort involving one of our largest corporate clients and people from Corporate Banking, Retail Banking, and Technology, we pioneered a B2B service that automates payments throughout the Kingdom. It seamlessly links the customer's payment system to the Bank's payment gateways. Reflecting our capability in this area, The National Commercial Bank was recently recognized as the Best Electronic Bank in the Kingdom for Corporate customers. The theme of excellence in technology was reinforced when NCB was also recognized as the Best Bank for e-Initiatives in the Middle East.

These awards along with the one for the Best Retail Electronic Bank are part of the Arabian Business Awards program managed by the Information and Technology Publishing Company based in Dubai, UAE. These awards, however, are for things we have already accomplished. We are committed to a pro-active approach to anticipate our customers' needs in the future. One way to do this is by continuing to demonstrate leadership in the application of technology for solving the everyday problems of our customers and our staff.

Customer officers in our International Division working with people from Trade Services, Islamic Product Development and International Staff in Bahrain and Seoul developed an innovative Islamic financing structure for one of our clients in Korea. They also worked with Technology to provide on-line support to key correspondent relationships enabling them to view their accounts on-line.

Our Treasury people working with their colleagues in Private Banking developed several new, yield-enhancing products. These included Callable Range Deposits, Euro Covered Call Deposits, and various Index Linked Deposits. In addition, the Treasury pioneered the ORYX

NCB CONTINUES TO OCCUPY A KEY POSITION AT THE HEART OF THE SAUDI ECONOMY AND IS THE MAJOR BANK TO THE MAJORITY OF LEADING COMPANIES IN THE KINGDOM

738

PROGRAMS

Fact: NCB conducted 738 training programs covering a wide range of technical and managerial skills in 2002.

Collateralized Loan Obligation Investment, the first of its kind to be offered by a domestic bank. Not only have our Private Banking customers prospered from these investments but they now also consider NCB to be a prime provider of such products. Further, our Treasury people also worked with their colleagues in Corporate Banking to develop a variety of risk management solutions for corporate clients.

In collaboration with the Technology group, our Trade Services people pioneered Al-Ahli FaxNet, an automated service that automatically notifies our customers about important events in the life cycle of a Letter of Credit transaction. This unique service has proved to be very popular with our customers.

Customer Service is a people business requiring training, motivation, timely information, good coaching and management. In 2002, we conducted 738 training programs covering a wide range of technical and managerial skills with emphasis on sales, credit and people management. Recognizing the important role of Management in improving staff performance, we have developed three People Management Courses, starting with supervisors through middle management to executive management. An important feature of our programs is that most of the teaching faculty for the middle and executive management programs are drawn from NCB staff. This provides us with a strong platform for senior staff to communicate the culture of the Bank to course participants as well as developing personal relationships, which are critical to effective execution of our strategy.

One of our most interesting training activities is the Advanced Team Working Workshop ("ATW Workshop"). Although this program is several years old, it remains unique in the Kingdom. We take a group of 20 NCB staff into the desert where they are faced with a number of exercises requiring teamwork. When they leave the desert camp, they are required to work on a group project that benefits the community. Projects include renovation of a home for elderly ladies, renovation and maintenance of an orphanage, blood donation campaigns throughout the country, raising money to provide equipment for the handicapped, establishing programs to provide food for the needy and recycling medicines, and raising money to purchase dialysis machines. These projects usually take about six months to complete. Not only do the graduates learn good team-building skills but they also develop life-long relationships with their colleagues. Importantly, they also learn how to use these skills to benefit the community and speak with pride about their

94
PERCENT

Fact: During 2002, 94% of the people who joined NCB were Saudi citizens.

Left: NCB people on an advanced teamworking scale a peak. Part of each individual's training takes place at a remote site such as a mountainous or desert area.

Below: Saud Sabban (left) Corporate Sector Head, meeting with Division Heads: (right to left) Sami A. Bin Mahfouz (Middle Market), Abdullah Al Amri (Trade), Ala'a Al Jabri (International), Ali Mubaraki (SAG), Hasan Al Jabri (Corporate).

projects. More than 200 of our colleagues have participated in the ATW Workshop, generating 40 community projects. The Management of The National Commercial Bank is proud of the hard work and achievements of the graduates of the ATW Workshops. This is literally serving society through action.

Managing a large organization requires strong people management processes. People need to understand the strategy and how they fit in. This requires effective communication and feedback as well as recognition and reward programs that are clearly tied to performance. During 2002, we focused on goal setting and appraisal. Using the Balanced Scorecard, which synthesizes the strategy into the critical few performance measures, many of our businesses have developed individual scorecards that align individual performance with the goals of the business. These individual and business scorecards help the entire organization to focus on the critical customer, staff and process-related activities that drive our financial performance.

Saudization is another Human Resource priority. During 2002, 94% of the people who joined the Bank were Saudi citizens. At the end of the year, Saudis constituted 80% of the total staff in the Kingdom. Importantly, more than 90% of our top managers are Saudis. We are committed to meeting our social obligation to provide interesting and challenging jobs to high performing men and women looking for opportunities for personal and professional growth and development.

After managing people, managing risk is the second most important activity in NCB and no report would be complete without discussing what we have done to improve risk management. During the year we strengthened our controls by installing Control Risk Self Assessment (CRSA) programs throughout the Bank. This is designed to make controls more visible to Management and, through regular reporting, identify and address emerging control issues before they can escalate into bigger problems. We have also conducted extensive Fraud and Money Laundering Awareness campaigns to enable our staff to protect the capital and reputation of the Bank. We established a Compliance Department with the responsibility to assist Management to ensure that our operations are fully compliant with all relevant laws and regulations governing the conduct of our business. This unit also contains our Anti-Money Laundering unit. We also established an Operational Risk Department within the Risk Management Division. Operational Risk is receiving a great deal of attention these days and our activities will evolve with the industry. Finally, in addition to the various risk awareness campaigns, we enhanced the ability of our staff to manage risk through credit and market risk training.

In closing, I would particularly like to thank our customers for their business. Our sole purpose is to serve your banking needs. If we fail in this mission, we fail as a business. I also want to thank the Management and Staff of the Bank. The people of NCB are its heart and soul. Our success is a testimony to our ability to work together to serve the needs of our customers. Finally, I would like to pay tribute to all the people of NCB not only for their unstinting hard work, but also for their steadfast commitment to the NCB Vision and Core Values.

The National Commercial Bank

(a Saudi Joint Stock Company)

Balance Sheet

As at 31 December 2002 and 2001

		Note	2002 SR '000	2001 SR '000
Assets	Cash and balances with SAMA	3	6,199,791	5,131,952
	Due from banks and other financial institutions	4	6,847,344	9,429,338
	Investments, net	5	46,181,972	40,103,396
	Loans and advances, net	6	42,389,126	37,908,273
	Investment in associate and subsidiary	7	1,228,763	1,271,175
	Other real estate, net	8	1,099,396	1,348,455
	Fixed assets, net	9	1,566,020	1,570,015
	Other assets	10	1,146,015	1,446,510
Total assets			106,658,427	98,209,114
Liabilities	Due to banks and other financial institutions	12	9,270,542	10,320,367
	Customers' deposits	13	85,303,657	78,436,517
	Other liabilities	14	3,166,478	3,167,205
Total liabilities			97,740,677	91,924,089
Shareholders' equity	Share capital	15	6,000,000	6,000,000
	Statutory reserve	16	2,100,286	2,033,899
	Retained earnings (accumulated losses)		276,033	(2,083,627)
	Other reserves	17	541,431	334,753
Total shareholders' equity			8,917,750	6,285,025
Total liabilities and shareholders' equity			106,658,427	98,209,114

The accompanying notes 1 to 38 form an integral part of these financial statements.

The National Commercial Bank

(A Saudi Joint Stock Company)

Statement of Income

For the years ended 31 December 2002 and 2001

		Note	2002 SR '000	2001 SR '000
	Special commission income	19	4,752,523	5,349,621
	Special commission expense	19	(1,265,972)	(2,303,035)
Net special commission income			3,486,551	3,046,586
	Fees from banking services, net	20	689,351	598,594
	Exchange income		130,020	82,452
	Trading income, net	21	39,261	61,577
	Dividend income	22	71,734	47,638
	Gains on investments, net	23	127,517	16,514
Total operating income			4,544,434	3,853,361
	Salaries and employee related expenses		957,882	903,556
	Rent and premises related expenses		119,001	119,563
	Depreciation	9	141,898	143,198
	Other general and administrative expenses		460,834	414,392
	Provision for possible credit losses	6	409,742	339,964
	Impairment of other financial assets		71,082	5,625
Total operating expenses			2,160,439	1,926,298
Income from operations			2,383,995	1,927,063
Other income (expenses)	Donations		(22,117)	(20,392)
	Other non-operating income, net	24	71,115	13,486
Net other income (expenses)			48,998	(6,906)
Net income for the year			2,432,993	1,920,157
Earnings per share		25	SR 40.5	SR 32.0

The accompanying notes 1 to 38 form an integral part of these financial statements.

The National Commercial Bank

(Saudi Joint Stock Company)

Statement of Changes in Shareholders' Equity

For the years ended 31 December 2002 and 2001

		Note	Share capital SR '000	Statutory reserve SR '000	Retained earnings (accumulated losses) SR '000	Other reserves SR '000	Total SR '000
2002	Balance as at 1 January 2002		6,000,000	2,033,899	(2,083,627)	334,753	6,285,025
	Transfer to statutory reserve	16	–	65,179	(65,179)	–	–
	Transfer to statutory reserve – Lebanon Branch	16	–	1,208	(1,208)	–	–
	Transfer to general banking risks – Lebanon Branch (included in other liabilities)		–	–	(131)	–	(131)
	Net income for the year		–	–	2,432,993	–	2,432,993
	Transfer to income statement during the year (net realized loss)		–	–	343	–	343
	Zakat	26	–	–	(7,158)	–	(7,158)
	Fair value adjustments – net movements	17	–	–	–	206,678	206,678
Balance as at 31 December 2002			6,000,000	2,100,286	276,033	541,431	8,917,750
2001	Balance as at 1 January 2001		6,000,000	2,032,879	(4,090,075)	–	3,942,804
	Effect of implementation of IAS 39 at 1 January 2001		–	–	64,628	1,736	66,364
	Transfer to statuary reserve – Lebanon Branch	16	–	1,020	(1,020)	–	–
	Net income for the year		–	–	1,920,157	–	1,920,157
	Transfer to income statement during the year (net realized loss)		–	–	22,683	–	22,683
	Fair value adjustments – net movements	17	–	–	–	333,017	333,017
Balance as at 31 December 2001			6,000,000	2,033,899	(2,083,627)	334,753	6,285,025

The accompanying notes 1 to 38 form an integral part of these financial statements.

Statement of Cash Flows

For the years ended 31 December 2002 and 2001

		Note	2002 SR '000	2001 SR '000
Cash flow from operating activities	Net income for the year		2,432,993	1,920,157
	Adjustments to reconcile net income to net cash from (used in) operating activities:			
	Accretion of discounts on investments, net		(124,460)	(109,030)
	Realized (gains) on investments, net		(127,517)	(16,514)
	(Gains) losses on disposal of fixed assets, net		(440)	197
	(Gains) on disposal of other real estate, net		(96,007)	(31,682)
	Depreciation of fixed assets		141,898	143,198
	Depreciation of other real estate		5,845	7,646
	Provision for possible credit losses		409,742	339,964
	Bank's share in unconsolidated subsidiary's losses		18,000	18,000
	Impairment of investment in associate		24,412	–
	Impairment of other financial assets		71,082	5,625
	Provision for unrealized revaluation losses of other real estate		2,419	21,523
			2,757,967	2,299,084
Net (increase) decrease in operating assets:	Statutory deposits with SAMA	3	(588,856)	(288,740)
	Due from banks and other financial institutions maturing after 90 days		(9,563)	454,523
	Trading securities		(106,597)	645,716
	Loans and advances		(4,854,444)	(1,593,446)
	Other real estate		336,802	259,437
	Other assets		300,495	731,623
Net increase (decrease) in operating liabilities:	Due to banks and other financial institutions		(1,049,825)	(3,579,336)
	Customers' deposits		6,867,140	3,418,693
	Other liabilities		(44,167)	60,845
Net cash from operating activities			3,608,952	2,408,399
Cash flow from investing activities	Proceeds from matured investments		5,081,081	23,405,649
	Proceeds from sale of investments		41,848,805	8,158,911
	Purchase of investments		(52,513,949)	(33,735,530)
	Purchase of fixed assets		(154,858)	(127,948)
	Proceeds from sale of fixed assets		17,395	7,957
Net cash (used in) investing activities			(5,721,526)	(2,290,961)
Net (decrease) increase in cash and cash equivalents			(2,112,574)	117,438
Cash and cash equivalents at the beginning of the year			11,857,463	11,740,025
Cash and cash equivalents at the end of the year		27	9,744,889	11,857,463
Supplemental non-cash information				
Fair value adjustments – net movements		17	206,678	333,017

The accompanying notes 1 to 38 form an integral part of these financial statements.

The National Commercial Bank

(A Saudi Joint Stock Company)

Notes to the Financial Statements

31 December 2002

1. GENERAL

The National Commercial Bank (The Bank) is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and Royal Decree No. M/19 on 23 Dhul Qida 1417H (31 March 1997) approving the Bank's conversion from a General Partnership to a Saudi Joint Stock Company. The Bank commenced business as a partnership under registration certificate authenticated by a Royal Decree on 28 Rajab 1369H (15 May 1950) and registered under commercial registration No. 4030001588 issued on 27 Dhul Hijjah 1376H (24 July 1957). The Bank initiated business in the name of "The National Commercial Bank" under Royal Decree No. 3737 on 20 Rabi Thani 1373H (26 December 1953). The date of 1 July 1997 was determined to be the effective date of the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank operates through its 248 branches (2001: 245 branches) in the Kingdom of Saudi Arabia and two overseas branches (Lebanon and Bahrain). The Bank employed 4,136 staff as at 31 December 2002 (2001: 4,081 staff). The Bank's Head Office is located at the following address:

The National Commercial Bank
Head Office
P.O. Box 3555
Jeddah 21481, Saudi Arabia
http://www.alahli.com
Telex : 404231/605571 NCBH SJ

The objective of the Bank is to provide a full range of banking services. The Bank also provides Islamic financing products including, inter alia, *murabaha, mudaraba, bai al-salam, istisna'a* in accordance with Shariah rules. These products, which are supervised by an independent Shariah board, are included in loans and advances.

The Bank has a 60% ownership interest in a subsidiary, the Commercial Real Estates Markets Company, which is a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration no. 4030073863 issued on 5 Rabi Thani 1411H (24 October 1990) and is engaged in owning, maintaining and managing the Jamjoom Center in Jeddah.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) Basis of presentation

The Bank follows the accounting standards promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards that include International Accounting Standards (IAS) and Interpretations issued by the International Accounting Standards Board. The Bank's financial statements comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

The financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, trading and available for sale investment securities. In addition, as explained fully in the related notes, assets and liabilities that are hedged (in a fair value hedging relationship) are carried at fair value to the extent of the risk being hedged with the exception of hedged originated portfolios, which are carried at adjusted amortized cost.

The accounting policies are consistent with those used in the previous year.

b) Investment in associate and subsidiary

Associates are enterprises in which the Bank generally holds 20% to 50% of the voting power and over which it exercises a significant influence. Investments in associates are accounted for under the equity method of accounting and are carried in the balance sheet at the lower of the equity-accounted or the recoverable amount.

A subsidiary is an entity in which the Bank has, directly or indirectly, a long-term investment comprising an interest of more than 50% in the voting capital and/or over which it exerts permanent control. Where the Bank does not have effective control but has significant influence, the investment in a subsidiary is accounted for under the equity method and the financial statements include the appropriate share of the subsidiary's results, reserves and accumulated losses based on its latest available financial statements.

c) Settlement date accounting

All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date on which the asset is delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

d) Derivative financial instruments and hedging

Derivative financial instruments including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate options (both written and purchased) are initially measured at cost and are subsequently re-measured at fair value. All derivatives are carried at their fair value in assets where the fair value is positive and in liabilities where the fair value is negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate.

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to income for the period and are disclosed in trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting described below.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognized asset or liability, or to a forecasted transaction or firm commitment that will affect the reported net gain or loss.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At the inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of the risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

In relation to fair value hedges which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the statement of income. The related portion of the hedged item is adjusted against

the carrying amount of the hedged item for fair value changes relating to the risks being hedged and is recognized in the statement of income. Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortized to the statement of income over the remaining life of the instrument.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under shareholders' equity. The ineffective portion, if any, is recognized in the statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves are transferred to the statement of income in the same period in which the hedged transaction affects the statement of income. Where the hedged forecasted transaction or firm commitment results in the recognition of an asset or a liability, then at the time that the asset or liability is recognized, the associated gains or losses that had previously been recognized in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, gains or losses recognized initially in other reserves are transferred to the statement of income in the period in which the hedged transaction impacts the statement of income.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves is retained in shareholders' equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in other reserves is transferred to the statement of income for the period.

e) Foreign currencies
The financial statements are denominated in Saudi Riyals. Transactions in foreign currencies are translated into Saudi Riyals at exchange rates prevailing on transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are translated into Saudi Riyals at the exchange rates prevailing at the balance sheet date.

Realized and unrealized gains or losses on exchange are credited or charged to operating income.

f) Offsetting
Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right to set off the recognized amounts or when the Bank intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

g) Revenue recognition
Special commission income and expense are recognized in the income statement on the accrual basis and include premiums and discounts amortized. Fees and exchange income from banking services are recognized when contractually earned. Dividend income is recognized when declared.

h) Sale and repurchase agreements
Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the balance sheet and are measured in accordance with related accounting policies for trading, originated debt securities, available for sale and held to maturity investments. The counterparty liability for amounts received under these agreements is included in due to banks and other financial institutions or customers' deposits, as appropriate. The difference between the sale and repurchase prices is treated as special commission expense which is accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognized in the balance sheet, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in cash and balances with SAMA, due from banks and other financial institutions or loans and advances, as appropriate. The difference between the purchase and resale prices is treated as special commission income which is accrued over the life of the reverse repo agreement.

i) Investments
All investment securities are initially recognized at cost, being the fair value of the consideration given including acquisition charges associated with the investment at that date (acquisition date). Premiums are amortized and discounts are accreted on a systematic basis to their maturity and are taken to special commission income.

For securities that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the balance sheet date.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security.

i) **Trading securities**
Securities which are held for trading are subsequently measured at fair value and any gain or loss arising from a change in fair value is included in the statement of income in the period to which it arises.

ii) **Available for sale**
Investments which are classified as available for sale are subsequently measured at fair value. For available for sale investments where fair value has not been hedged, any gain or loss arising from a change in their fair value is recognized directly in other reserves under shareholders' equity until the investments are derecognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the statement of income for the period.

Available for sale investments where fair value cannot be reliably measured are carried at amortized cost.

iii) **Originated debt securities**
Securities which are purchased directly from the issuer other than those purchased with the intent to be sold immediately or in the short term are classified as originated debt securities. Originated debt securities where fair value has not been hedged are stated at amortized cost, less provision for impairment. Any gain or loss is recognized in the statement of income when the investment is derecognized or impaired. An adjustment is made to such investments where effective fair value hedges have been made to adjust the value of the investment for the fair value being hedged with the resultant gains or losses being recognized in the statement of income.

iv) **Held to maturity**
Investments which have fixed or determinable payments which are intended to be held to maturity are subsequently measured at amortized cost, less provision for impairment in their value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognized in the statement of income when the investment is derecognized or impaired.

j) Loans and advances
Loans and advances originated by the Bank, for which fair value has not been hedged, are stated at cost less any amount written off and provisions for impairment.

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of the timely collection of the full amount of principal and special commission.

The provision for possible credit losses is based upon the management's assessment of the adequacy of the provision on a periodic basis. The assessment takes into account the composition and volume of the loans and advances, the general economic conditions and the collectibility of the outstanding loans and advances.

For presentation purposes, provision for possible credit losses is deducted from loans and advances.

k) Impairment of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognized for changes in its carrying amounts as follows:

For financial assets at amortized cost – the carrying amount of the asset is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the statement of income; and

For financial assets at fair value – where a loss has been recognized directly under shareholders' equity as a result of the write-down of the asset to recoverable amount, the cumulative net loss recognized in shareholders' equity is transferred to the statement of income.

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognized based on the rate of commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Specific provisions are evaluated individually for all the different types of loans and advances, whereas additional provisions are evaluated on a group basis.

In addition to specific provisions for impaired loans and advances, an additional provision is created for probable losses where there is objective evidence that potential losses are present at the balance sheet date. These are estimated based upon credit ratings allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate as well as the experience and the historical default patterns that are embedded in the components of the credit portfolio.

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

l) Other real estate
The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate is stated at the lower of net realizable value of due loans and advances or the current fair value of such related assets, less any subsequent provision for unrealized revaluation losses.

Rental income, gains and losses on disposal, depreciation of acquired buildings and unrealized losses on the annual revaluation of other real estate are credited or charged to other non-operating income and expense.

m) Fixed assets
Fixed assets are stated at cost net of accumulated depreciation and amortization.

Freehold land is not depreciated. The cost of other fixed assets is depreciated and amortized using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Leasehold improvements	Over lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4-10 years

n) Deposits and money market placements
All money market deposits, placements and customers' deposits are initially recognized at cost, being the fair value of the consideration received. Subsequently all commission bearing deposits and money market placements, other than those held for trading or where fair values have been hedged, if any, are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement. Premiums are amortized and discounts are accreted on a systematic basis to maturity and taken to special commission income and expense.

Deposits and money market placements, which are held for trading, are subsequently measured at fair value and any gain or loss from a change in fair value is included in the statement of income in the period in which it arises. Deposits and money market placements for which there is an associated fair value relationship are adjusted for fair value to the extent hedged and the resultant gain or loss is recognized in the statement of income. For deposits and money market placements carried at amortized cost, any gain or loss is recognized in the statement of income when derecognized or impaired.

o) Accounting for leases

Where the Bank is the lessee
Leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

p) Zakat
Zakat is the liability of the shareholders. Zakat is provided for in accordance with the Saudi Arabian fiscal regulations. The provision is charged to retained earnings.

q) Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and, accordingly, are not included in these financial statements.

r) Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA excluding statutory deposits and due from banks maturing within 90 days.

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3. CASH AND BALANCES WITH SAMA

	2002 SR '000	2001 SR '000
Cash in hand	1,087,630	650,230
Balances with SAMA:		
Statutory deposit	3,154,350	2,565,494
Reverse repo	1,901,000	1,900,000
Current accounts	56,811	16,228
Total	6,199,791	5,131,952

In accordance with article (7) of the Banking Control Law, the Bank is required to maintain statutory deposit with the Saudi Arabian Monetary Agency (SAMA) at stipulated percentages of its demand, time and other deposits, calculated at the end of each Gregorian month.

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2002 SR '000	2001 SR '000
Current accounts	992,998	1,326,530
Money market placements	5,854,346	8,102,808
Total	6,847,344	9,429,338

5. INVESTMENTS, NET

a) Trading securities

	Domestic 2002 SR '000	2001 SR '000	International 2002 SR '000	2001 SR '000	Total 2002 SR '000	2001 SR '000
Fixed rate securities	34,937	278,875	–	–	34,937	278,875
Externally managed portfolio	–	–	1,580,019	1,185,900	1,580,019	1,185,900
Mutual funds	118,146	200,457	43,822	5,095	161,968	205,552
Total	153,083	479,332	1,623,841	1,190,995	1,776,924	1,670,327

b) Available for sale

	Domestic 2002 SR '000	2001 SR '000	International 2002 SR '000	2001 SR '000	Total 2002 SR '000	2001 SR '000
Fixed rate securities	2,215,484	3,045,780	2,109,690	1,762,057	4,325,174	4,807,837
Floating rate notes	–	–	1,110,644	1,264,202	1,110,644	1,264,202
Equities	1,883,563	1,689,844	102,493	114,203	1,986,056	1,804,047
Others	290,357	298,438	92,248	115,035	382,605	413,473
Available for sale, gross	4,389,404	5,034,062	3,415,075	3,255,497	7,804,479	8,289,559
Accumulated provision for impairment	(169,675)	(130,794)	(19,947)	(5,625)	(189,622)	(136,419)
Total	4,219,729	4,903,268	3,395,128	3,249,872	7,614,857	8,153,140

c) Originated debt securities

	Domestic 2002 SR '000	2001 SR '000	International 2002 SR '000	2001 SR '000	Total 2002 SR '000	2001 SR '000
Fixed rate securities	24,340,829	20,914,937	128,128	424,676	24,468,957	21,339,613
Floating rate notes	3,420,312	1,350,000	3,689,939	2,512,305	7,110,251	3,862,305
Others	35,274	67,507	–	–	35,274	67,507
Originated debt securities, gross	27,796,415	22,332,444	3,818,067	2,936,981	31,614,482	25,269,425
Accumulated provision for Impairment	–	–	(12,260)	–	(12,260)	–
Total	27,796,415	22,332,444	3,805,807	2,936,981	31,602,222	25,269,425

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5. INVESTMENTS, NET (continued)

d) Held to maturity

	Domestic 2002 SR '000	2001 SR '000	International 2002 SR '000	2001 SR '000	Total 2002 SR '000	2001 SR '000
Fixed rate securities	1,207,043	2,182,469	82,241	145,723	1,289,284	2,328,192
Floating rate notes	–	21,948	1,183,118	1,343,364	1,183,118	1,365,312
Islamic investment portfolio	–	–	2,715,567	1,317,000	2,715,567	1,317,000
Total	1,207,043	2,204,417	3,980,926	2,806,087	5,187,969	5,010,504
Investments, net	33,376,270	29,919,461	12,805,702	10,183,935	46,181,972	40,103,396

e) The analysis of the composition of investments is as follows:

	2002 Quoted SR '000	Unquoted SR '000	Total SR '000	2001 Total SR '000
Fixed rate securities	2,155,012	27,963,340	30,118,352	28,754,517
Floating rate notes	4,200,081	5,203,932	9,404,013	6,491,819
Externally managed portfolio	–	1,580,019	1,580,019	1,185,900
Mutual funds	–	161,968	161,968	205,552
Equities	1,605,652	380,404	1,986,056	1,804,047
Islamic investment portfolio	–	2,715,567	2,715,567	1,317,000
Others	–	417,879	417,879	480,980
Investments, gross	7,960,745	38,423,109	46,383,854	40,239,815
Accumulated provision for impairment	–	(201,882)	(201,882)	(136,419)
Investments, net	7,960,745	38,221,227	46,181,972	40,103,396

The above unquoted fixed rate securities and floating rate notes mainly comprise Government Development Bonds.

f) The analysis of unrealized gains/losses and fair values of originated debt securities net of hedging and held to maturity investments is as follows:

Originated debt securities

	2002 Carrying value SR '000	Gross unrealized gain SR '000	Gross unrealized loss SR '000	Fair value SR '000	2001 Carrying value SR '000	Gross unrealized gain SR '000	Gross unrealized loss SR '000	Fair value SR '000
Fixed rate securities	24,468,957	584,245	(2,315)	25,050,887	21,339,613	305,007	–	21,644,620
Floating rate notes	7,110,251	36,665	(4,223)	7,142,693	3,862,305	13,323	–	3,875,628
Others	35,274	–	–	35,274	67,507	–	–	67,507
Originated debt securities, gross	31,614,482	620,910	(6,538)	32,228,854	25,269,425	318,330	–	25,587,755
Accumulated provision for impairment	(12,260)	–	–	(12,260)	–	–	–	–
Total	31,602,222	620,910	(6,538)	32,216,594	25,269,425	318,330	–	25,587,755

Held to maturity

	2002 Carrying value SR '000	Gross unrealized gain SR '000	Gross unrealized loss SR '000	Fair value SR '000	2001 Carrying value SR '000	Gross unrealized gain SR '000	Gross unrealized loss SR '000	Fair value SR '000
Fixed rate securities	1,289,284	11,220	(2,035)	1,298,469	2,328,192	35,752	(127)	2,363,817
Floating rate notes	1,183,118	62,393	(31,070)	1,214,441	1,365,312	2,243	–	1,367,555
Islamic investment portfolio	2,715,567	–	–	2,715,567	1,317,000	–	–	1,317,000
Total	5,187,969	73,613	(33,105)	5,228,477	5,010,504	37,995	(127)	5,048,372

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5. INVESTMENTS, NET (continued)

g) The analysis of investments by counterparty is as follows:

	2002 SR '000
Government and quasi-Government	31,931,298
Corporate	10,897,103
Banks and other financial institutions	3,290,933
Others	62,638
Total	46,181,972

Equities reported under available for sale investments include unquoted shares of SR 380 million (2001: SR 388 million) that are carried at cost as their fair values cannot be reliably measured.

Other available for sale investments include Musharaka of SR 114 million (2001: SR 118 million) and mutual funds of SR 65 million (2001: SR 67 million) that are carried at cost as their fair values cannot be reliably measured.

Floating rate instruments include collateralized debt obligations of SR 20 million (2001: SR 55 million) that are carried at cost as their fair values cannot be reliably measured.

Investments include SR 2,511 million (2001: SR 3,664 million) which have been pledged under repurchase agreements with other banks and customers. The market value of the investments is SR 2,714 million (2001: SR 3,742 million).

Retained earnings include SR 88 million (2001: SR 87 million) relating to available for sale investments due to the effect of the implementation of IAS 39, which will be transferred to the statement of income upon realization.

6. LOANS AND ADVANCES, NET

a) Originated loans and advances

		2002 SR '000	2001 SR '000
These are comprised of the following:			
Performing:	Overdrafts	13,523,164	10,468,237
	Credit cards	308,382	257,559
	Commercial loans	13,783,648	10,918,788
	Consumer loans	11,957,358	7,934,970
	Others	3,433,618	8,505,904
Performing loans and advances, gross		43,006,170	38,085,458
Non-performing loans and advances, net		7,573,597	7,457,681
		50,579,767	45,543,139
Provision for possible credit losses		(8,190,641)	(7,634,866)
Total		42,389,126	37,908,273

As at 31 December 2002 non-performing loans and advances were SR 7,574 million (2001: SR 7,458 million), net of accumulated commission in suspense of SR 400 million (2001: SR 391 million).

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6. LOANS AND ADVANCES, NET (continued)

b) Movements in provision for possible credit losses are as follows:

	2002 SR '000	2001 SR '000
Balance at beginning of the year	7,634,866	8,551,690
Provided during the year	372,549	272,547
Transfer from provision against indirect facilities	476,015	–
Bad debts written off	(292,789)	(1,189,371)
Balance at end of the year	8,190,641	7,634,866

In addition to specific provision included above, is a provision amounting to SR 647 million (2001: SR 394 million) which is allocated over the performing portfolio based on historical default patterns.

Charge for the year in the statement of income:

	2002 SR '000	2001 SR '000
Additions during the year against loans and advances	372,549	272,547
Provision against indirect facilities (included in other liabilities)	36,151	62,354
Direct write-offs	1,042	5,063
Total charge for the year	409,742	339,964

c) Economic sector risk concentrations for the loans and advances and provision for possible credit losses are as follows:

2002	Performing SR '000	Non performing, net SR '000	Specific provision for possible credit losses SR '000	Loans and advances, net SR '000
1. Government and quasi-Government	12,836,918	–	–	12,836,918
2. Banks and financial institutions	2,154,399	204,584	(204,393)	2,154,590
3. Agriculture and fishing	187,907	41,744	(42,037)	187,614
4. Manufacturing	1,090,841	24,968	(24,991)	1,090,818
5. Electricity, gas and health services	129,271	196	(196)	129,271
6. Building and construction	4,979,861	1,325,356	(1,325,275)	4,979,942
7. Commerce	5,370,529	436,245	(420,905)	5,385,869
8. Transportation and communication	159,288	126,520	(126,520)	159,288
9. Services	397,799	219,994	(210,682)	407,111
10. Consumer	12,265,740	486,738	(481,028)	12,271,450
11. Others	3,433,617	4,707,252	(4,707,339)	3,433,530
	43,006,170	7,573,597	(7,543,366)	43,036,401
Additional provision				(647,275)
Loans and advances, net				42,389,126

2001	Loans and advances, before provision for possible credit losses SR '000
1. Government and quasi-Government	10,177,099
2. Banks and financial institutions	1,177,089
3. Agriculture and fishing	129,553
4. Manufacturing	1,192,032
5. Electricity, gas and health services	138,402
6. Building and construction	4,554,014
7. Commerce	5,519,143
8. Transportation and communication	181,042
9. Services	673,861
10. Consumer	8,570,826
11. Others	13,230,078
Total	45,543,139

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7. INVESTMENT IN ASSOCIATE AND SUBSIDIARY

a) Investment in associate

	2002 SR '000	2001 SR '000
Cost	473,682	473,682
Provision for impairment	(24,412)	–
Total	449,270	473,682

b) Investment in unconsolidated subsidiary, net

	2002 SR '000	2001 SR '000
Cost	960,000	960,000
Bank's share in subsidiary's accumulated losses	(180,507)	(162,507)
	779,493	797,493
Total investment in associate and subsidiary	1,228,763	1,271,175

8. OTHER REAL ESTATE, NET

	2002 SR '000	2001 SR '000
Cost:		
Cost as at 1 January	1,642,105	1,912,920
Additions	53,649	67,979
Disposals	(366,727)	(338,794)
Cost as at 31 December	1,329,027	1,642,105
Accumulated depreciation:		
Balance as at 1 January	72,019	84,554
Charge for the year	5,845	7,646
Disposals	(21,059)	(20,181)
Balance as at 31 December	56,805	72,019
Net book value	1,272,222	1,570,086
Provision for unrealized revaluation losses	(172,826)	(221,631)
Total	1,099,396	1,348,455

9. FIXED ASSETS, NET

	Land & buildings SR '000	Furniture, equipment & vehicles SR '000	Total SR '000
Cost:			
Balance as at 1 January 2002	2,040,108	1,807,180	3,127,288
Additions	53,090	101,768	154,858
Disposals	(24,187)	(5,522)	(29,709)
Balance as at 31 December 2002	2,069,011	1,183,426	3,252,437
Accumulated depreciation:			
Balance as at 1 January 2002	681,606	875,667	1,557,273
Charge for the year	71,238	70,660	141,898
Disposals	(7,498)	(5,256)	(12,754)
Balance as at 31 December 2002	745,346	941,071	1,686,417
Net book value:			
As at 31 December 2002	1,323,665	242,355	1,566,020
As at 31 December 2001	1,358,502	211,513	1,570,015

Furniture, equipment and vehicles include information technology related assets.

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10. OTHER ASSETS

	2002 SR '000	2001 SR '000
Accrued special commission income – banks and other financial institutions	13,069	56,216
Accrued special commission income – investments	503,265	508,569
Accrued special commission income – loans and advances	65,604	77,348
Accrued special commission income – others	6,496	20,204
Total Accrued special commission income	588,434	662,337
Positive fair value of derivatives (note 11)	133,915	219,598
Others	423,666	564,575
Total	1,146,015	1,446,510

11. DERIVATIVES

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for both trading and hedging purposes:

Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For currency swaps, fixed commission payments and principal are exchanged in different currencies. For cross-currency commission rate swaps, principal and fixed and floating commission payments are exchanged in different currencies.

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges, and changes in futures contract values are settled daily.

Forward rate agreements are individually negotiated commission rate futures that call for a cash settlement for the difference between a contracted commission rate and the market rate on a specified future date, based on a notional principal for an agreed period of time.

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a predetermined price.

Derivatives held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves profiting from price differentials between markets or products.

Derivatives held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gap to within the established limits.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases the hedging relationship and objective, including details of the hedged items and hedging instrument, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

11. DERIVATIVES (continued)

	Positive fair value	Negative fair value	Notional amount Total	2002 SR '000 Notional amounts by term to maturity Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Derivatives held for trading:								
Commission rate swaps	93,004	(81,739)	4,846,800	543,500	863,500	3,136,864	302,936	4,306,945
Commission rate futures	5,969	(4,693)	1,249,662	88,500	386,250	774,912	–	1,512,477
Forward foreign exchange contracts	24,257	(28,926)	12,238,001	4,267,434	7,970,083	484	–	21,792,558
Currency options	9,925	(24,576)	2,571,578	1,396,725	1,174,853	–	–	2,184,683
Derivatives held as fair value hedges:								
Commission rates swaps	535	(119,769)	1,223,568	–	–	1,176,693	46,875	2,269,313
Derivatives held as cash flow hedges:								
Commission rate swaps	225	–	37,500	–	–	37,500	–	75,000
Total	133,915	(259,703)	22,167,109	6,296,159	10,394,686	5,126,453	349,811	32,140,976

	Positive fair value	Negative fair value	Notional amount Total	2001 (SR '000) Notional amounts by term to maturity Within 3 months	3-12 months	1-5 years	Over 5 years
Derivatives held for trading:							
Commission rate swaps	161,801	(163,311)	6,140,006	2,037,475	1,404,684	2,281,427	416,420
Commission rate futures	8,018	(10,252)	1,098,418	3,750	265,918	828,750	–
Forward foreign exchange contracts	23,191	(29,101)	35,358,725	19,640,817	15,717,908	–	–
Currency options	12,643	(11,813)	2,022,185	942,503	1,079,682	–	–
Derivatives held as fair value hedges:							
Commission rates swaps	11,538	(21,240)	1,761,443	–	269,615	1,401,174	90,654
Derivatives held as cash flow hedges:							
Commission rate swaps	2,407	–	287,500	100,000	150,000	37,500	–
Total	219,598	(235,717)	46,668,277	22,724,545	18,887,807	4,548,851	507,074

The table below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value.

2002 Description of hedged items	Fair value SR '000	Cost SR '000	Risk	Hedging instrument	Positive fair value SR '000	Negative fair value SR '000
Fixed commission rate investments	2,513,950	2,056,676	Fair value	Commission rate swap	535	119,768
Floating commission rate investments	37,500	37,500	Cash flow	Commission rate swap	225	–

2001 Description of hedged items	Fair value SR '000	Cost SR '000	Risk	Hedging instrument	Positive fair value SR '000	Negative fair value SR '000
Fixed commission rate investments	1,787,630	1,745,775	Fair value	Commission rate swap	11,538	21,241
Floating commission rate investments	252,352	287,500	Cash flow	Commission rate swap	2,407	–

Approximately 63% (2001: 86%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 37% (2001: 14%) of the positive fair value contracts are with non-financial institutions at the balance sheet date.

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2002 SR '000	2001 SR '000
Current accounts	1,002,828	1,307,648
Repo	144,189	617,858
Money market deposits	8,123,525	8,394,861
Total	9,270,542	10,320,367

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13. CUSTOMERS' DEPOSITS

	2002 SR '000	2001 SR '000
Current accounts	36,651,126	33,594,258
Savings	380,151	406,061
Time	44,102,163	40,883,369
Others	4,170,217	3,552,829
Total	85,303,657	78,436,517

Time deposits include deposits against sale of fixed rate bonds of SR 2,379 million (2001: SR 3,039 million) with agreement to repurchase the same at fixed future dates. Other customers' deposits include SR 873 million (2001: SR 862 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2002 SR '000	2001 SR '000
Current accounts	2,136,618	2,275,215
Savings	8,123	8,898
Time	10,648,371	12,050,236
Others	504,977	634,713
Total	13,298,089	14,969,062

14. OTHER LIABILITIES

	2002 SR '000	2001 SR '000
Accrued special commission expense – banks and other financial institutions	62,896	47,422
Accrued special commission expense – customers' deposits	213,467	314,105
Accrued special commission expense – others	68,448	33,473
Total Accrued special commission expense	344,811	395,000
Negative fair value of derivatives (note 11)	259,703	235,717
Zakat (note 26)	7,158	–
Others	2,554,806	2,536,488
Total	3,166,478	3,167,205

15. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 60 million shares of SR 100 each (2001: 60 million shares), wholly owned by Saudi shareholders.

16. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income, inclusive of the overseas branches, after deducting accumulated losses carried forward from prior years, is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Pursuant to Lebanese Money and Credit Law, the Lebanon branch is required to transfer 10% of its annual net income to the statutory reserve. Statutory reserves are not currently available for distribution under both laws. Accordingly, SR 66 million has been transferred from 2002 net income to statutory reserve.

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17. OTHER RESERVES

2002	Cash flow hedges SR '000	Available for sale investments SR '000	Total SR '000
Balance at beginning of the year	2,407	332,346	334,753
Net change in fair value	(2,182)	205,315	203,133
Transfer to income statement during the year	–	3,545	3,545
Net movement during the year	(2,182)	208,860	206,678
Balance as at 31 December 2002	225	541,206	541,431

2001	Cash flow hedges SR '000	Available for sale investments SR '000	Total SR '000
Effect of implementation of IAS 39 at 1 January 2001	1,736	–	1,736
Net change in fair value	671	317,385	318,056
Transfer to income statement during the year	–	14,961	14,961
Net movement during the year	671	332,346	333,017
Balance as at 31 December 2001	2,407	332,346	334,753

18. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

The Bank is involved in the following legal cases:

i) A court judgment was passed against the Bank in relation to a legal case for an amount of SR 320 million. The Bank's management appealed to the Supreme Court in respect of that judgment and the case was returned to the original court for reconsideration on the grounds that certain fundamental factors were not taken into account when the court judgement was made.

ii) A legal case was filed against the Bank for an amount of SR 310 million. This case is still under consideration by the Higher Court in Jeddah.

The information usually required by IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) is not disclosed in these financial statements as IAS 37 permits such non-disclosure in order to avoid prejudice in respect of ongoing legal proceedings. The Bank's management and its lawyers are of the opinion that both claims can be successfully resisted by the Bank.

b) Capital commitments

The Bank's capital commitments as at 31 December 2002 in respect of building and equipment purchases are not material to the financial position of the Bank.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantee and standby letters of credit, which represent irrecoverable assurances that the Bank will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans and advances. Documentary and commercial letters of credit which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank generally expects the customers to fulfil their primary obligation.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

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18. COMMITMENTS AND CONTINGENCIES (continued)

i) The maturity structure of the Bank's commitments and contingencies is as follows:

31 December 2002	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Total SR '000
Guarantees	3,510,569	1,911,223	1,307,229	92,898	6,821,919
Letters of credit	4,543,382	1,069,772	170,309	–	5,783,463
Acceptances	903,483	591,715	20,733	–	1,515,931
Commitments to extend credit (irrevocable)	–	780,536	881,250	387,500	2,049,286
Total	8,957,434	4,353,246	2,379,521	480,398	16,170,599

31 December 2001	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Total SR '000
Guarantees	3,912,479	2,181,507	1,288,929	88,263	7,471,178
Letters of credit	4,140,069	640,628	44,474	–	4,825,171
Acceptances	758,017	505,526	29,725	–	1,293,268
Commitments to extend credit (irrevocable)	13,844	1,204,717	468,750	487,500	2,174,811
Total	8,824,409	4,532,378	1,831,878	575,763	15,764,428

The unused portion of non-firm commitments, which can be revoked at any time, outstanding as at 31 December 2002 amounted to SR 9,717 million (2001: SR 9,433 million).

ii) The analysis of commitments and contingencies by counterparty is as follows:

	2002 SR '000
Government and quasi-Government	2,113,057
Corporate and establishments	9,165,135
Banks and other financial institutions	4,365,181
Others	527,226
Total	16,170,599

d) Operating lease commitments:
The future minimum lease payments under non-cancelable operating leases where the Bank is the lessee are as follows:

	2002 SR '000	2001 SR '000
Less than 1 year	10,714	11,736
1 to 5 years	26,743	25,200
Over 5 years	11,875	9,549
Total	49,332	46,485

19. NET SPECIAL COMMISSION INCOME

	2002 SR '000	2001 SR '000
Special commission income		
Trading securities	6,798	13,138
Available for sale investments	166,802	209,557
Originated debt securities	1,465,803	1,556,457
Held to maturity investments	188,888	286,673
	1,828,291	2,065,825
Bank placements	256,455	537,103
Loans and advances	2,667,777	2,746,693
Total	4,752,523	5,349,621

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19. NET SPECIAL COMMISSION INCOME (continued)

	2002 SR '000	2001 SR '000
Special commission expense		
Bank takings	214,863	451,385
Customers' deposits	1,051,109	1,851,650
Total	1,265,972	2,303,035

20. FEES FROM BANKING SERVICES, NET

	2002 SR '000	2001 SR '000
Fee income	740,370	638,682
Fee (expenses)	(51,019)	(40,088)
Net fee income	689,351	598,594

21. TRADING INCOME, NET

	2002 SR '000	2001 SR '000
Foreign exchange	37,306	15,929
Debt instruments (loss) income	(713)	341
Derivatives (loss)	(11,103)	(10,617)
Externally managed portfolio	13,771	55,924
Total	39,261	61,577

22. DIVIDEND INCOME

	2002 SR '000	2001 SR '000
Available for sale investments	71,734	47,638

23. GAINS ON INVESTMENTS, NET

	2002 SR '000	2001 SR '000
(Loss) gain available for sale investments	(11,554)	40,004
Gain (loss) originated debt securities	141,285	(22,620)
(Loss) held to maturity investments	(2,214)	(870)
Total	127,517	16,514

24. OTHER NON-OPERATING INCOME, NET

	2002 SR '000	2001 SR '000
Income (expense) from other real estate		
Rental income	19,189	25,915
Disposal gain	96,007	31,682
Provision for unrealized revaluation loss	(2,419)	(21,523)
Depreciation	(5,845)	(7,646)
Net income from other real estate	106,932	28,428
Bank's share in unconsolidated subsidiary's losses	(18,000)	(18,000)
Impairment of investment in associate	(24,412)	–
Disposal gain (loss) on sale of fixed assets	440	(197)
Provision for legal cases	–	(12,085)
Net other income	6,155	15,340
Total	71,115	13,486

25. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net income for the year by the number of shares outstanding during the year of 60 million shares (2001: 60 million shares).

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26. ZAKAT

Zakat attributable to the shareholders amounting to SR 7.2 million (2001: nil) has been deducted from the retained earnings and included in other liabilities.

27. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following:

	2002 SR '000	2001 SR '000
Cash and balances with SAMA excluding statutory deposits (note 3)	3,045,441	2,566,458
Due from banks and other financial institutions maturing within 90 days	6,699,448	9,291,005
Total	9,744,889	11,857,463

28. BUSINESS SEGMENTS

The Bank is organized into the following major business segments:

Retail banking
Provides banking services, including consumer lending, current accounts and investment management services to individuals and small-sized businesses in addition to Islamic products in compliance with *Shariah* rules and supervised by the Independent *Shariah* Board.

Corporate and Treasury banking
Provides banking services including all conventional credit related products and Islamic financing products to medium and large establishments in addition to managing liquidity and market risk (local and international), carrying out investment and trading activities as well as providing a full range of treasury products and services, including money market and foreign exchange, to the Bank's clients.

Others
Comprise Head Office accounts, particularly management of a portfolio of equity holdings, other real estate, the statutory deposits and the Bank premises.

Transactions between the business segments are recorded as per the Bank's transfer pricing system.

The Bank's primary business is conducted in the Kingdom of Saudi Arabia with two international branches (Lebanon and Bahrain), and where total assets and net profit represent 14.3% and 3.0% (2001: 7.2% and 2.4%), respectively, of the Bank's totals.

a) The Bank's total assets and liabilities, its operating income and expenses and net income, by business segments, are as follows:

31 December 2002	Retail SR '000	Corporate and treasury SR '000	Others SR '000	Total SR '000
Total assets	18,052,505	79,957,811	8,648,111	106,658,427
Total liabilities	54,953,400	41,013,972	1,773,305	97,740,677
Total operating income	3,121,920	1,308,972	113,542	4,544,434
Total operating expenses	1,528,476	594,085	37,878	2,160,439
Net income	1,587,399	707,528	138,066	2,432,993

31 December 2001	Retail SR '000	Corporate and treasury SR '000	Others SR '000	Total SR '000
Total assets	13,630,443	76,379,565	8,199,106	98,209,114
Total liabilities	43,638,835	46,163,199	2,122,055	91,924,089
Total operating income	2,681,709	1,058,428	113,224	3,853,361
Total operating expenses	1,344,508	502,531	79,259	1,926,298
Net income	1,331,901	564,465	23,791	1,920,157

b) The Bank's credit exposure, by business segments, is as follows:

31 December 2002	Retail SR '000	Corporate and treasury SR '000	Others SR '000	Total SR '000
Balance sheet assets	16,689,394	77,615,201	3,064,959	97,369,554
Commitments and contingencies (credit equivalent)	1,968,396	5,683,873	–	7,652,269
Derivatives (credit equivalent)	–	441,962	–	441,962

The credit exposure of balance sheet assets is comprised of due from banks and other financial institutions, investments, loans and advances, accrued special commission income and positive fair value of derivatives.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA established methodology.

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29. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, by setting limits for transactions with specific counterparties, and by continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. In certain cases the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate.

The debt instruments included in investments are mainly sovereign risk. For details of the composition of the loans and advances refer to note 6. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 18.

The Bank uses an internal classification system based on risk ratings for its corporate and middle market customers. The risk rating system, which is managed by an independent unit, provides a rating at obligor, transaction and portfolio levels. The classification system includes 10 grades, of which seven grades relate to the performing portfolio and three grades relate to the non-performing portfolio. The associated loss estimate norms for each grade have been developed based on the Bank's historical default rates for each rating. The risk management and the senior management carry out regular credit reviews.

Specific provisions for possible credit losses for the impaired lending portfolio are maintained by the Bank's Credit Risk Management using specific criteria i.e. customers' activities, cash flows, capital structure, securities and delinquency. An additional provision is allocated over the performing lending portfolio based on historical default patterns.

30. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

a) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure is as follows as at 31 December:

2002	The Kingdom of Saudi Arabia SR '000	GCC and Middle East SR '000	Europe SR '000	Other countries SR '000	Total SR '000
Assets					
Cash and balances with SAMA	6,014,989	1,877	–	182,925	6,199,791
Due from banks and other financial institutions	2,282,521	2,679,225	1,484,322	401,276	6,847,344
Investments, net	33,389,031	3,343,265	6,417,841	3,031,835	46,181,972
Loans and advances, net	39,761,821	1,581,075	156,823	889,407	42,389,126
Investment in associate and subsidiary	1,228,763	–	–	–	1,228,763
Total	82,677,125	7,605,442	8,058,986	4,505,443	102,846,996
Liabilities					
Due to banks and other financial institutions	3,613,441	4,516,780	836,251	304,070	9,270,542
Customers' deposits	77,109,643	165,992	7,944,708	83,314	85,303,657
Total	80,723,084	4,682,772	8,780,959	387,384	94,574,199
Commitments and contingencies	11,882,153	355,945	499,621	3,432,880	16,170,599
Credit exposure					
Commitments and contingencies (credit equivalent)	6,388,451	114,467	216,840	932,511	7,652,269
Derivatives (credit equivalent)	202,745	22,820	164,480	51,917	441,962

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA established methodology.

30. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

2001	The Kingdom of Saudi Arabia SR '000	GCC and Middle East SR '000	Europe SR '000	Other countries SR '000	Total SR '000
Assets					
Cash and balances with SAMA	5,080,485	1,098	–	50,369	5,131,952
Due from banks and other financial institutions	2,677,532	3,052,111	2,701,404	998,291	9,429,338
Investments, net	29,919,462	1,486,603	5,372,988	3,324,343	40,103,396
Loans and advances, net	36,899,877	247,185	339,855	421,356	37,908,273
Investment in associate and subsidiary	1,271,175	–	–	–	1,271,175
Total	75,848,531	4,786,997	8,414,247	4,794,359	93,844,134
Liabilities					
Due to banks and other financial institutions	4,655,910	2,896,471	1,384,915	1,383,071	10,320,367
Customers' deposits	71,282,377	253,926	6,865,419	34,795	78,436,517
Total	75,938,287	3,150,397	8,250,334	1,417,866	88,756,884
Commitments and contingencies	11,360,248	257,042	909,661	3,237,477	15,764,428

Balances shown in due from and due to banks and other financial institutions in the Kingdom of Saudi Arabia include money market placements of nil (2001: SR 375 million) and time deposit takings of SR 188 million (2001: SR 469 million), respectively, on account of foreign branches of local banks.

b) The distributions by geographical concentration of non-performing loans and advances and the specific provision for possible credit losses are as follows:

	Non-performing loans and advances, net 2002 SR '000	Specific provision for possible credit losses 2002 SR '000
The Kingdom of Saudi Arabia	7,383,407	(7,353,176)
GCC and the Middle East	189,754	(189,754)
Others	436	(436)
Total	7,573,597	(7,543,366)

31. CURRENCY RISK

The Bank is exposed to fluctuations in foreign currency exchange rates. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Bank had the following significant net exposures denominated in foreign currencies:

	2002 SR '000 Long (short)	2001 SR '000 Long (short)
US Dollar	(4,023,716)	(851,584)
Japanese yen	387,395	93,805
Euro	54,221	(14,465)
Pound sterling	4,742	(19,996)
Others	45,738	33,792

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

32. COMMISSION RATE RISK

Commission sensitivity of assets, liabilities and off-balance sheet items

The Bank is exposed to various risks associated with fluctuations in the levels of market commission rates. The table below summarizes the Bank's exposure to commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off- balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table following summarizes the Bank's exposure to commission rate risks.

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32. COMMISSION RATE RISK (continued)

31 December 2002	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Non-commission bearing SR '000	Total SR '000	Effective commission rate %
Assets							
Cash and balances with SAMA	1,901,000	–	–	–	4,298,791	6,199,791	1.50
Due from banks and other financial institutions	6,369,201	113,012	32,902	–	332,229	6,847,344	1.93
Investments, net	12,522,437	9,935,733	13,078,464	6,855,225	3,790,113	46,181,972	4.72
Loans and advances, net	23,711,645	5,428,192	10,123,372	2,954,232	171,685	42,389,126	4.97
Investment in associate and subsidiary	–	–	–	–	1,228,763	1,228,763	–
Other real estate, net	–	–	–	–	1,099,396	1,099,396	–
Fixed assets, net	–	–	–	–	1,566,020	1,566,020	–
Other assets	–	–	–	–	1,146,015	1,146,015	–
Total assets	44,504,283	15,476,937	23,234,738	9,809,457	13,633,012	106,658,427	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	7,457,859	826,896	–	–	985,787	9,270,542	2.03
Customers' deposits	33,475,804	10,985,211	259,371	–	40,583,271	85,303,657	2.08
Other liabilities	215,355	54,970	2,741	–	2,893,412	3,166,478	–
Shareholders' equity	–	–	–	–	8,917,750	8,917,750	–
Total liabilities and shareholders' equity	41,149,018	11,867,077	262,112	–	53,380,220	106,658,427	
On-balance sheet gap	3,355,265	3,609,860	22,972,626	9,809,457	(39,747,208)	–	
Off-balance sheet gap	61,251	2,276,118	(2,137,558)	(199,811)	–	–	
Total commission rate sensitivity gap	3,416,516	5,885,978	20,835,068	9,609,646	(39,747,208)	–	
Cumulative commission rate sensitivity gap	3,416,516	9,302,494	30,137,562	39,747,208	–	–	

31 December 2001	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Non-commission bearing SR '000	Total SR '000	Effective commission rate %
Assets							
Cash and balances with SAMA	1,900,000	–	–	–	3,231,952	5,131,952	2.25
Due from banks and other financial institutions	8,452,991	214,690	–	–	761,657	9,429,338	2.44
Investments, net	10,005,247	3,366,230	17,469,460	7,115,597	2,146,862	40,103,396	5.02
Loans and advances, net	23,994,039	3,450,520	7,523,232	2,426,762	513,720	37,908,273	5.25
Investment in associate and subsidiary	–	–	–	–	1,271,175	1,271,175	–
Other real estate, net	–	–	–	–	1,348,455	1,348,455	–
Fixed assets, net	–	–	–	–	1,570,015	1,570,015	–
Other assets	–	–	–	–	1,446,510	1,446,510	–
Total assets	44,352,277	7,031,440	24,992,692	9,542,359	12,290,346	98,209,114	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	8,247,840	1,256,456	–	–	816,071	10,320,367	2.56
Customers' deposits	29,805,547	11,386,550	2,411	–	37,242,009	78,436,517	2.81
Other liabilities	216,167	145,360	–	–	2,805,678	3,167,205	–
Shareholders' equity	–	–	–	–	6,285,025	6,285,025	–
Total liabilities and shareholders' equity	38,269,554	12,788,366	2,411	–	47,148,783	98,209,114	
On-balance sheet gap	6,082,723	(5,756,926)	24,990,281	9,542,359	(34,858,437)		
Off-balance sheet gap	1,098,025	733,923	(1,674,852)	(157,096)	–		
Total commission rate sensitivity gap	7,180,748	(5,023,003)	23,315,429	9,358,263	(34,858,437)		
Cumulative commission rate sensitivity gap	7,180,748	2,157,745	25,473,174	34,858,437	–		

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32. COMMISSION RATE RISK (continued)

The off-balance sheet gap represents the net notional amounts of off-balance sheet financial instruments, which are used to manage the commission rate risk.

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

33. LIQUIDITY RISK

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarizes the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank is required to keep with SAMA a statutory deposit of 7% of total demand deposits and 2% of savings and time deposits. In addition to the statutory deposit, the Bank is required to maintain a liquid reserve, in the form of cash, gold, Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days of not less than 20% of the deposit liabilities.

The Bank may also raise additional funds through repo facilities available with SAMA against Government Development Bonds.

The maturity profile of the assets and liabilities is as follows:

31 December 2002	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	No fixed maturity SR '000	Total SR '000
Assets						
Cash and balances with SAMA	6,199,791	–	–	–	–	6,199,791
Due from banks and other financial institutions	6,699,448	114,753	33,143	–	–	6,847,344
Investments, net	5,694,964	9,094,316	17,735,783	10,096,790	3,560,119	46,181,972
Loans and advances, net	8,209,441	17,417,674	13,031,276	3,702,004	28,731	42,389,126
Investment in associate and subsidiary	–	–	–	–	1,228,763	1,228,763
Other real estate, net	–	–	–	–	1,099,396	1,099,396
Fixed assets, net	–	–	–	–	1,566,020	1,566,020
Other assets	–	–	–	–	1,146,015	1,146,015
Total assets	26,803,644	26,626,743	30,800,202	13,798,794	8,629,044	106,658,427
Liabilities and shareholders' equity						
Due to banks and other financial institutions	7,068,502	1,452,040	750,000	–	–	9,270,542
Customers' deposits	74,059,075	10,985,211	259,371	–	–	85,303,657
Other liabilities	182,547	70,853	19,666	–	2,893,412	3,166,478
Shareholders' equity	–	–	–	–	8,917,750	8,917,750
Total liabilities and shareholders' equity	81,310,124	12,508,104	1,029,037	–	11,811,162	106,658,427

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33. LIQUIDITY RISK (continued)

31 December 2001	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	No fixed maturity SR '000	Total SR '000
Assets						
Cash and balances with SAMA	5,131,952	–	–	–	–	5,131,952
Due from banks and other financial institutions	9,291,005	137,360	973	–	–	9,429,338
Investments, net	3,822,418	3,878,889	21,032,548	9,338,490	2,031,051	40,103,396
Loans and advances, net	5,063,519	13,112,488	15,366,956	4,149,138	216,172	37,908,273
Investment in associate and subsidiary	–	–	–	–	1,271,175	1,271,175
Other real estate, net	–	–	–	–	1,348,455	1,348,455
Fixed assets, net	–	–	–	–	1,570,015	1,570,015
Other assets	–	–	–	–	1,466,510	1,446,510
Total assets	23,308,894	17,128,737	36,400,477	13,487,628	7,883,378	98,209,114
Liabilities and shareholders' equity						
Due to banks and other financial institutions	9,063,911	1,256,456	–	–	–	10,320,367
Customers' deposits	69,509,971	8,924,135	2,411	–	–	78,436,517
Other liabilities	226,646	134,881	–	–	2,805,678	3,167,205
Shareholders' equity	–	–	–	–	6,285,025	6,285,025
Total liabilities and shareholders' equity	78,800,528	10,315,472	2,411	–	9,090,703	98,209,114

34. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arms'-length transaction. Consequently, differences can arise between carrying values and fair value estimates.

The fair values of on-balance sheet financial instruments, except for originated debt securities, held to maturity investments, loans and advances and customers' deposits, are not significantly different from the carrying values included in the financial statements. The estimated fair value of the originated debt securities and investments held to maturity is based on quoted market prices when available or pricing models in the case of certain fixed rate bonds. Fair value of these investments is disclosed in note 5. It is not practical to determine the fair value of loans and advances and customers' deposits with sufficient reliability.

35. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the board, the related party transactions are performed on an arms'-length basis. The related party transactions are governed by the limits set by the Banking Control Law and the regulations issued by SAMA. The balances resulting from such transactions are as follows:

	2002 SR '000	2001 SR '000
Directors and major shareholders':		
Loans and advances	111,535	158,617
Customers' deposits	143,682	68,057
Commitments and contingencies	32,884	54,100
Bank's mutual funds:		
Investments	189,482	250,451
Customers' deposits	9,336,379	5,985,692

Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	2002 SR '000	2001 SR '000
Special commission income	5,177	4,783
Special commission expense	231,847	491,563

The National Commercial Bank

(A Saudi Joint Stock Company)

Notes to the Financial Statements

31 December 2002

36. CAPITAL ADEQUACY

The Bank monitors the adequacy of its capital using the methodology, ratios and weights established by the SAMA. These measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.

	Regulatory capital		Capital adequacy ratio	
	2002 SR '000	2001 SR '000	2002 %	2001 %
Core capital (Tier 1)	8,917,750	6,285,025	17.8	12.6
Core and supplementary capital (Tier 1 & Tier 2)	9,544,996	6,679,173	19.0	13.4

Tier 1 capital of the Bank is comprised of the share capital, statutory and other reserves and retained earnings as at the year end. Tier 2 capital comprises a prescribed amount of eligible provisions.

	Risk weighted assets					
	2002			2001		
	Carrying value/ notional SR '000	Credit equivalent SR '000	Risk weighted assets SR '000	Carrying value/ notional SR '000	Credit equivalent SR '000	Risk weighted assets SR '000
Balance sheet assets						
0%	54,326,818		–	45,087,831		–
20%	9,395,696		1,879,139	10,385,057		2,077,011
100%	43,583,188		43,583,188	43,130,374		43,130,374
Sub-total	107,305,702		45,462,327	98,603,262		45,207,385
Commitments and derivatives						
0%	2,049,468	2,049,338	–	2,174,993	2,174,863	–
20%	22,669,082	1,606,432	321,286	44,004,639	1,947,701	389,540
50%	3,794,392	84,739	42,370	6,545,544	140,396	70,198
100%	8,801,715	4,353,722	4,353,722	8,254,902	4,097,954	4,097,954
Sub-total	37,314,657	8,094,231	4,717,378	60,980,078	8,360,914	4,557,692
Total	144,620,359	8,094,231	50,179,705	159,583,340	8,360,914	49,765,077

37. INVESTMENT SERVICES

The Bank offers investment management services to its customers. These services include the management of a variety of mutual funds with assets totalling SR 23,190 million (2001: SR 23,727 million) and include several funds which comply with Shariah rules and are subject to Shariah control on a regular basis. Some of these mutual funds are managed in association with external professional investment advisors. The Bank also manages private investment portfolios on behalf of customers. These funds and private portfolios are not included in the financial statements of the Bank.

38. BOARD OF DIRECTORS APPROVAL

The financial statements were approved by the Board of Directors on 20 April 2003.

The National Commercial Bank

(A Saudi Joint Stock Company)

Auditors' Report

Ernst & Young
P.O. Box 1994
Jeddah 21441
Saudi Arabia

Al Sayed El Ayouty & Co.
Member of Moore Stephens International Limited
Certified Public Accountants
P.O. Box 780, Jeddah 21421
Saudi Arabia

TO THE SHAREHOLDERS OF THE NATIONAL COMMERCIAL BANK

We have audited the balance sheet of The National Commercial Bank (the "Bank") (A Saudi Joint Stock Company) as at 31 December 2002 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, including the related notes. These financial statements are the responsibility of the Bank's management and have been prepared by them in accordance with the provisions of the Regulations for Companies and the Banking Control Law and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

In our opinion, the financial statements taken as a whole:

i) present fairly, in all material respects, the financial position of the Bank as of 31 December 2002 and the results of its operations and its cash flows for the year then ended in accordance with the Accounting Standards issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and

ii) comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association with respect to the preparation and presentation of financial statements.

For Ernst & Young

Dr. Abdullah Abdulrahman Baeshen
Registration No. 66

For El Sayed El Ayouty & Co.
Certified Public Accountants

Mohammed El-Ayouty
Registration No. 211

18 Safar 1424 H
Corresponding to: 20 April 2003

Jeddah

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